



CIMB Research Report

CI Holdings

Twister takes the market by storm

4QFY08 RESULTS

27 August 2008

RECOM	Buy
PRICE	RM1.00
MKT CAPITALISATION	RM129.6m
BOARD	Main
SECTOR	Food & Beverage

MALAYSIA

CIH MK / CIHB.KL

Norziana Mohd Inon + 60 (3) 2084-9645 – norziana.inon@cimb.com

Results highlights

- **Above expectations.** As previewed, CI Holdings' (CIH) 4Q net profit of RM5m beat our expectation, leading the full-year bottomline to RM14.5m or 21% above our forecast. CIH also surprised on the dividend front, with its first post-restructuring final dividend of 4 sen/share, way above our forecast of 1.5 sen/share. There are no consensus estimates.
- **Juicy 4Q.** 4Q net profit, which made up 34% of the full-year amount, is the company's eighth straight quarter of profits. The bulk of the contribution in 4Q came from the strong response to the Tropicana Twister orange and apple juices launched in Mar 08. We estimate that Tropicana Twister, which is a PepsiCo product, contributed 17% to CIH's FY08 net profit. CIH is selling 40,000-50,000 cases of Tropicana Twister per month, more than double our expectation of 15,000-20,000 cases per month (1 case = 24 bottles). The drinks retail at RM2.50 each. Tropicana Twister is the first venture into the juice segment by CIH's wholly-owned Permanis which has been involved in the carbonated drink segment for decades.
- **New campaign added extra fizz.** Although Tropicana Twister stole the show in 4Q, Pepsi carbonated beverages remained CIH's backbone. Stripping the contribution from Tropicana Twister, we estimate that the bottomline contribution from carbonated beverages surged by around 45% yoy, helped by an RM8m youth-oriented sales campaign that was launched in May 07.
- **Reiterate BUY.** Imputing additional sales from Tropicana Twister, we raise our FY09-10 EPS forecasts by 5-6%. We also increase our DPS forecasts from 2-2.5 sen to 4 sen in FY09-10, giving a decent yield of 4%. Due to the earnings upgrade, our target price goes up from RM1.48 to RM1.56, still pegged to a forward P/E of 15x based on a 20% discount to the average valuation of bigger F&B producers. We continue to rate CIH a BUY as the stock could be in for a re-rating given a stronger product line and M&A opportunities in the snack segment, which would be another first for CIH.

Key stock statistics

	2008	2009F
FYE 30 Jun		
EPS (sen)	7.8	10.2
P/E (x)	12.9	9.8
Dividend/Share (sen)	4.0	4.0
NTA/Share (RM)	0.71	0.74
Book Value/Share (x)	0.71	0.74
Issued Capital (m shares)	129.6	129.6
52-weeks Share Price Range (RM)	RM0.80/RM1.18	
Major Shareholders:	%	
Datuk Johari Abdul Ghani	26.2	
ASB	18.5	
Continental Theme Sdn Bhd	10.0	

Per share data

FYE 30 Jun	2006	2007	2008	2009F
Book Value (RM)	0.63	0.67	0.71	0.74
Cash Flow (sen)	5.8	16.1	22.0	26.2
Earnings (sen)	(2.9)	6.0	7.8	10.2
Dividend (sen)	0.0	0.0	4.0	4.0
Payout Ratio (%)	0.0	0.0	37.0	28.3
P/E (x)	nm	16.6	12.9	9.8
P/Cash Flow (x)	17.1	6.2	4.5	3.8
P/Book Value (x)	1.6	1.5	1.4	1.3
Dividend Yield (%)	0.0	0.0	4.0	4.0
ROE (%)	(4.6)	9.0	15.9	19.7
Net Gearing (%)	88.7	83.4	83.2	83.0

Source: Company, CIMB estimates, Bloomberg

Please read carefully the important disclosures at the end of this publication.

Figure 1: Results comparison (RM m)

FYE Jun	4Q07	4Q08	% Change
Revenue	66.6	69.8	4.9
Operating Profit (EBIT)	29.3	28.5	(2.8)
Depreciation	n.a	n.a	-
Interest Expenses	(1.6)	(1.2)	(26.8)
Pretax Profit	8.0	3.3	(59.5)
Net Profit	3.1	5.0	63.8
Operating Margin	44.0	40.8	(7.3)
Pretax Margin	12.1	4.7	(61.4)
Net Margin	4.6	7.2	56.2

Source: Company, CIMB estimates

Figure 2: P&L analysis (RM m)

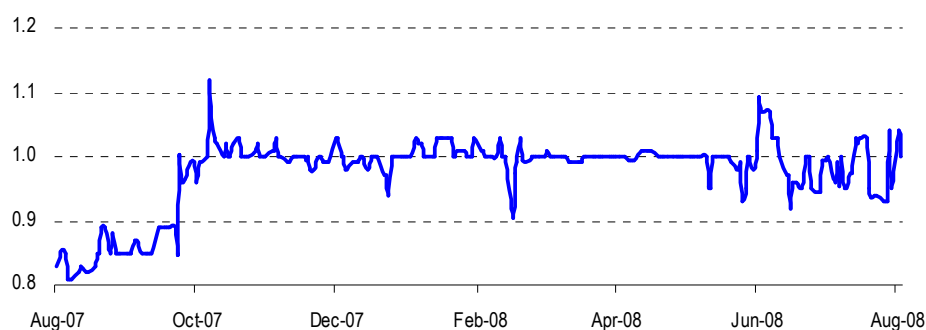
FYE 30 Jun	2006	2007	2008	2008F
Revenue	222.2	267.0	290.2	362.8
Operating Profit (EBIT)	24.8	38.1	52.3	61.3
Depreciation	(11.3)	(13.0)	(14.0)	(15.0)
Interest Expenses	(7.0)	(4.9)	(8.7)	(9.2)
Pretax Profit	(4.8)	7.3	15.6	22.1
Effective Tax Rate (%)	n.a	(7.5)	7.1	14.0
Net Profit	(3.8)	7.8	14.5	19.0
Operating Margin (%)	11.2	14.3	18.0	16.9
Pretax Margin (%)	(2.2)	2.7	5.4	6.1
Net Margin (%)	(1.7)	2.9	5.0	5.2

Source: Company, CIMB estimates

Recommendation

Tapping PepsiCo's snack business. Leveraging on its close relationship with PepsiCo, CIH plans to manufacture PepsiCo's FritoLay products, which include Lay's, Ruffles, Cheetos and Doritos. This will allow CIH to venture into the snack business in which it has no exposure. Currently, Malaysians have to pay premium prices for imported FritoLay products. The manufacture of these products in Malaysia will not only bring down their prices but could open the doors to exports for CIH given their halal certification. For these products, a sizeable ready market in Malaysia is possible, especially among those who have consumed and liked these products overseas.

Maintain BUY. Imputing additional sales from Tropicana Twister, we raise our FY09-10 EPS forecasts by 5-6%. We also increase our DPS forecasts from 2-2.5 sen to 4 sen in FY09-10, giving a decent yield of 4%. Due to the earnings upgrade, our target price goes up from RM1.48 to RM1.56, still pegged to a forward P/E of 15x based on a 20% discount to the average valuation of bigger F&B producers, namely Nestle (NESZ MK, Neutral) and F&N (FNH MK, Underperform). We continue to rate CIH a BUY as the stock could be in for a re-rating given a stronger product line and M&A opportunities in the snack segment, which would be another first for CIH.

Figure 3: Share price chart (RM)

Source: Bloomberg

Financial summary

FYE Jun	2007	2008	2009F	2010F	2011F
Revenue (RM m)	267.0	290.2	362.8	435.3	522.4
EBITDA (RM m)	25.1	38.3	46.3	49.0	50.3
EBITDA margins (%)	9.4	13.2	12.8	11.2	9.6
Pretax profit (RM m)	7.3	15.6	22.1	23.3	24.4
Net profit (RM m)	7.8	14.5	19.0	20.0	21.0
EPS (sen)	6.0	11.2	14.7	15.4	16.2
EPS growth (%)	+308%	+86%	+31%	+5%	+5%
P/E (x)	16.6	8.9	6.8	6.5	6.2
FD EPS (sen)	6.0	7.8	10.2	10.7	11.2
FD P/E (x)	16.6	12.9	9.8	9.3	8.9
Gross DPS (sen)	-	4.0	4.0	4.0	4.0
Dividend yield (%)	-	4.0	4.0	4.0	4.0
P/NTA (x)	1.5	1.4	1.3	1.3	1.2
ROE (%)	9.0	15.9	19.7	19.7	19.9
Net gearing (%)	83.4	83.2	83.0	82.6	80.2
P/CF (x)	6.2	4.5	3.8	3.6	3.4
EV/EBITDA (x)	5.4	3.5	2.9	2.7	2.7
% change in EPS estimates			5.6	5.3	-
CIMB/Consensus (x)			-	-	-

Source: Company, CIMB/CIMB-GK Research, Reuters Estimates

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